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An Overview of the Rental Market in the

Salt Lake City-Ogden, Utah

Metropolitan Statistical Area (MSA)

**As of
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The Salt Lake City, Utah MSA Rental Market

Introduction

This report has been prepared to assist the U.S. Department of Housing and Urban Development (HUD) in its underwriting operations. It has also been provided to officials of state and local government, developers, lenders and others interested in the outlook for the local rental market. The estimates, opinions and forecasts in this report are solely those of the Economists in the Office of Policy Development and Research in the Rocky Mountain Office and do not represent HUD Departmental or Rocky Mountain Office policy. This report is provided for informational purposes only. It does not purport to make determinations with respect to any particular application for mortgage insurance, subsidy funds, grants or other financing that may be under consideration in this market area.

The market area covered by this analysis consists of the Salt Lake City-Ogden Metropolitan Statistical Area (MSA) which is defined as Davis, Salt Lake and Weber Counties, Utah. The report includes a discussion of the condition and outlook for the overall rental market and the market for income restricted projects financed under the Low Income Housing Tax Credit (LIHTC) program, including projects which provide income restricted units as a result of obtaining financing through issuance of tax exempt, Private Activity Bonds (PABs). It does not address specialized portions of the rental market such as congregate elderly housing or assisted living but it does include a brief review of the outlook for independent LIHTC units reserved for seniors. The analysis does include a brief discussion of the home sales market. Unless otherwise noted, the estimates and discussion of market conditions are as of December 2000.

Summary and Conclusions

Salt Lake City's economy continues to perform well, but the pace of growth has moderated from the 5 percent gains of the mid-1990s. Average employment during the 9 month period ending in September 2000 was 2.5 percent above the level recorded during the same period a year ago or about equal to the annual growth rates in 1998 and 1999. The unemployment rate in September was 2.9 percent, down by nearly a full percentage point from a year ago. The outlook for 2001 is for continued moderate growth, but some fallout will occur in 2002 following the completion of major construction projects timed for the 2002 Winter Olympics. The loss of related construction jobs and Olympics workers will slow the MSA's employment growth for that year to 2 percent. Stimulated by a strong high technology sector, a quick rebound is anticipated in 2003 and the economy should return to pre-Olympics' growth rates. Population gains have continued but the rate of growth has also declined. Annual growth rates have decreased from almost 2 percent in the early and mid-1990s to just over 1 percent during the past few years. As of October 2000, there are approximately 1,279,100 persons living in the MSA.

The rental market continues to improve. The third quarter 2000 vacancy rate of 3.9 percent was down from 4.8 percent recorded a year ago. Rents have begun to increase slightly after years of relative stability. The market has improved largely because of a dramatic cutback in apartment construction that began in 1998 and continued through this year. This situation is likely to carry through into the next year and the early part of 2002 because of the modest number of units either under construction or in the pipeline. Demand for new rental units is estimated at 1,700 units in 2001 and 1,300 in 2002. The lower demand in the second year reflects the expected slower employment growth. The 1,300 units currently under construction are slightly below the expected absorption level and some continued tightening is likely. There is a short run opportunity for additional market rate rentals but some caution is urged to time starts so that opening dates do not coincide with the period immediately following the Olympics. The best timing for new starts is to begin now so that completion is prior to the Olympics or begin in late 2001 or early 2002 to avoid the period after the Olympics. Some short term competitiveness in Spring/Summer 2002 will be felt as Olympics related workers depart the area and nearly 600 media/security worker units are released to the market. Most of the impact will be felt in the Salt Lake City downtown-university area where much of the Olympics related activity has occurred. Most suburban rental markets will adjust quickly in this transition; many will not be affected.

The current market for nonelderly LIHTC units is generally balanced; most projects are full and new ones lease up well. LIHTC projects under construction and in the pipeline, while adding competitiveness to the market, will keep capture rates at acceptable levels. The capture rate required for three bedroom units aimed at 60 percent of income households is above that for other unit sizes at this income level. As a result, development should be encouraged in other income levels and unit sizes in the short run. While we expect the 60 percent market to be more competitive, strong demand will remain for all unit types at the 40 and 50 percent of income level. There is a substantial unmet need among family households eligible for rental assistance such as that provided under HUD's Section 8 program. The elderly LIHTC market also is generally balanced, but projects in the pipeline will more than double the required capture rate among the 60 percent of income group. As with the nonelderly market, future development of elderly projects should be encouraged at the 40 and 50 percent income levels.

Employment Trend

Salt Lake City-Ogden is the major financial, transportation and service center for the intermountain west. Major sources of employment include higher education (the University of Utah), federal and state agencies, manufacturing, high-tech and biotechnology research. Salt Lake City is the capitol of Utah and is the headquarters of the Mormon Church. The local economy is well diversified and is still growing in many sectors, especially high technology and business services. The largest employers (excluding local government and school districts) are Intermountain Health Care, Hill Air Force Base, the University of Utah, the Mormon Church, Internal Revenue Service, Delta Airlines, Cordant Technologies, Quest, Autolive, IOMEGA and Modus Media. The

recent trend in civilian unemployment rate and wage and salary employment for the MSA is presented in the following table:

Table 1

Unemployment Rate and Wage and Salary Employment
Salt Lake City-Ogden, Utah MSA
1990 - 2000

<u>Year</u>	<u>Unemployment rate</u>	<u>Wage and salary employment</u>	
		<u>Number</u>	<u>Change</u>
1990	3.9%	493,681	na
1991	4.5%	506,497	2.6%
1992	4.7%	521,738	3.0%
1993	3.6%	548,119	5.1%
1994	3.5%	579,549	5.7%
1995	3.3%	612,500	5.7%
1996	3.2%	642,539	4.9%
1997	2.9%	668,979	4.1%
1998	3.6%	685,998	2.5%
1999	3.6%	701,793	2.3%
September 1999*	3.7%	697,975	na
September 2000*	2.9%	715,077	2.5%

* 9 months ending September.

Source: Utah Department of Workforce Services

Entering the 1990s, the local economy was still in the recovery stage from a weak state economy and overbuilt residential and commercial markets. New firms, workers and retirees were attracted by the area's low costs, which initially stimulated growth in trade and services. This was followed by a surge in high technology manufacturing and research. The flourishing high technology sector fueled an economic boom during the mid-1990s. As neighboring states' economies improved, especially in California, and the cost/wage differential lessened, employment growth began to slow. By 1998, the Asian economic crisis hurt the state's export industries and dampened growth in the aerospace, computer, biomedical and primary metals sectors. Employment growth slowed from over 5 percent in the mid-1990s to 2.5 percent in 1998 where it has stabilized since.

The economy would have slowed further had it not been for the massive infrastructure improvements timed for the 2002 Winter Olympics. Since 1997, construction activity associated with the Olympics has been a major factor in recent

economic growth. While most of the Olympic venues are complete (hockey arena, stadium, ski area expansions, ice sheet, etc.), several large projects with extended construction schedules will not be finished until Fall 2001. These include the Little America Grand Hotel, Marriott Hotel, The Gateway District's first phase and the reconstruction of Interstate 15. Gateway's first phase project will include 2 million square feet of retail, entertainment, office and housing space just west of downtown. By the time the games begin, nearly \$3 billion worth of construction projects will have been completed throughout the state, with the vast majority of these in the Salt Lake Metro area.

The culmination of these projects and the unknown fate of at least 6,000 project workers clouds the employment outlook for the year of the games. Helping to offset these losses, but only partially, will be several other large construction undertakings, including hospitals, shopping malls, commercial buildings and highway improvements that will break ground over the next few years. Nevertheless, a net loss in construction jobs in 2002 will negatively affect wage and salary employment growth. Growth is expected to fall from 2.5 percent in 2001 to 2 percent in 2002. Stimulated by a strong advanced technology sector and infrastructure improvements, a quick rebound is anticipated in 2003 when employment growth should return to the pre-Olympics' level of about 2.5 percent.

Beyond the next few years, the outlook for the area is very good. The potential for major expansions at high technology firms, including Micron, Intel and Gateway is good. Gateway USA has already located some of its computer manufacturing and services in Salt Lake. Micron and Intel have started construction of large campus developments, each potentially employing thousands of new workers. Similar expansions are expected in the future as the area's amenities and favorable business climate continue to attract businesses and stimulate employment growth.

Population Trend

Population growth in the Salt Lake City-Ogden MSA accelerated in the early 1990s but has eased considerably since then. This early surge was fueled by a weak California (and U.S.) economy that sent many residents to other western states, including Utah. Migration to the MSA was at its highest in 1991 and 1992 when these factors were the strongest. Sustained employment growth kept immigration in positive territory until 1998, when it journeyed into negative territory, where it has remained since. Several factors contributed to the shift from net immigration to outmigration. Slower employment growth, although still at a respectable pace, was not strong enough to absorb the area's population increase due primarily to the high natural increase in population. Also, the four year Interstate 15 reconstruction project and associated commuting problems in the MSA encouraged some population shifts to neighboring counties. Population and migration trends are presented in the following table:

Table 2

Population and Components of Change
Salt Lake City, Utah MSA
1990 - 1999

<u>Date</u>	<u>Population</u>	<u>Net natural increase*</u>	<u>Migration</u>	<u>Population change</u>	
				<u>Number</u>	<u>Percent</u>
July 1990	1,075,000	16,058	na	11,000	1.0%
July 1991	1,104,002	16,050	12,944	29,002	2.7%
July 1992	1,131,998	16,147	11,946	27,996	2.5%
July 1993	1,151,997	15,962	3,852	19,999	1.8%
July 1994	1,175,995	16,018	8,036	23,998	2.1%
July 1995	1,197,568	16,447	5,555	21,573	1.8%
July 1996	1,216,566	17,034	2,551	18,998	1.6%
July 1997	1,235,974	17,782	2,374	19,408	1.6%
July 1998	1,250,268	18,334	(3,488)	14,294	1.2%
July 1999	1,264,729	18,910	(3,873)	14,461	1.2%

* Excess of resident births over deaths.

Source: Utah Governor's Office of Planning and Budget

Inmigration accounted for over one fifth of the population gain over the past decade. While inmigration was a major factor during most of the 1990s, the outmigration of the past few years will likely persist over the next few years given the expected employment growth scenario. The current estimated population for the MSA is about 1,279,100 persons as of October 1, 2000, a .9 percent annual average increase from July 1 of last year. This is well below the decade annual average of 1.8 percent. As mentioned above, this population movement from the Salt Lake area will likely continue in 2001 and 2002. An annual employment growth of 2.5 percent in 2001 and 2 percent in 2002 should result in population increasing by 1.4 percent in 2001 and .9 percent in 2002 to 1,309,400 persons by 2002. Stronger population growth in 2001 is expected as Olympic workers and related persons move in and then slower growth in 2002 when, along with construction workers, they move out.

Residential Building Trend

The decade began with a soft market, which contributed to single family permit activity recording its decade low of 3,544 units in 1990 . Construction picked up dramatically in subsequent years because of lower interest rates and strong employment growth. The number of single family units produced peaked in 1996 at 9,161 units, then declined to 7,409 by 1999. The trend in new construction permits is presented in the following table.

Table 3

Housing Units Authorized by Building Permits
Salt Lake City-Ogden, Utah MSA
1990 - 2000

<u>Year</u>	<u>Single Family (a)</u>	<u>Multifamily (b)</u>	<u>Total</u>
1990	3,544	285	3,829
1991	4,445	187	4,632
1992	6,038	367	6,405
1993	7,081	1,756	8,837
1994	7,114	1,643	8,757
1995	7,641	3,006	10,647
1996	9,161	3,689	12,850
1997	7,909	2,720	10,629
1998	8,062	2,391	10,453
1999	7,409	1,975	9,384
<hr/>			
Jan-Oct 1999	6,356	1,793	8,149
Jan-Oct 2000	5,453	1,287	6,740

(a) Single family permits include all structures of one unit and townhouses. This excludes manufactured homes placed on foundation or pads (estimated to be about 2,000 units in total since 1990.)

(b) Multifamily permits include all structures with 2 or more units (including condominiums).

Source: Census Bureau; University of Utah Construction Reports

The building slowdown continued into 2000; from January through October 2000, the number of new single family units permitted declined by 14.6 percent from last year's level during the same time period. Many of the new single family homes are located in the southwest Salt Lake, north Davis and south Weber Counties where most of the available land is located. According to the New Construction Information Network, during the past year entry level homes priced below \$175,000 accounted for 50 percent of new homes produced. The move-up range of \$175,000 to \$280,000 was

the next most popular with 40 percent of new homes, while high end homes priced above \$280,000 made up the balance of 10 percent of homes built in the MSA. Since 1990, Salt Lake County's portion of the MSA's total single family construction was 60 percent, followed by Davis County (24 percent) and Weber County (16 percent).

The trend in multifamily construction parallels single family permit activity going into the 1990s, but the recovery period extended a few years longer. At the start of the decade, the market was extremely competitive following a mid-1980s construction boom that added nearly 20,000 apartment units to the market. Low rents and high vacancies persisted until 1993 when new construction became feasible. The small number of multifamily permits recorded from 1990 to 1992 were nearly all in retirement or subsidized projects.

In 1993, construction picked up dramatically, increasing by 380 percent from 1992, doubling in 1995, then peaking at the decade high of 3,689 units in 1996. Activity gradually declined in each of the following years and by 1999, was down to one half of the peak year's level. The number of new general occupancy apartment units (after subtracting out elderly retirement projects and owner occupied units) also fell by one half from approximately 3,000 units in 1996 to 1,500 in 1999. During the first phase of the building cycle, much of the new construction consisted of class A product in south Salt Lake County. Complicated by the I-15 reconstruction and stagnant rents, building shifted to predominantly class B and LIHTC product in west Salt Lake, north Davis and south Weber Counties. Salt Lake County's share of multifamily production since 1990 has held at a steady 75 percent. This was propped up by the 684 unit Olympic Village completed this year. This apartment style dormitory space now houses nearly 2,500 single students at the University of Utah. During the Olympics, the students will vacate for a three week period to make room for participating athletes.

Apartment construction continued to decrease this year; the total of 1,287 multifamily unit starts through October 2000 is 28 percent below last year's level at this time. However, the rush to build Olympic timed units by the end of the year could push the number of multifamily units starts closer to last year's level.

Since 1993, approximately 15,700 units in 100 apartment projects have opened or are under construction. There are seven projects currently under construction; five are in Salt Lake County (one elderly LIHTC, two family LIHTC and two market rate) and two are market rate projects in Weber County. As of November 2000, there are about 1,300 apartment units under construction.

The pipeline of projects not yet under construction includes about 1,400 units in eight projects. Seven of these projects are in Salt Lake County, and are a mix of market rate/LIHTC Olympic housing, elderly LIHTC and market rate. The three market rate/LIHTC Olympic projects (600 units) are in the downtown area and when completed will initially be occupied by the media and security workers. Following the games, units will be released gradually (depending on market conditions) to the general public under an agreement with the Olympics' committee. Approximately 700 manufactured homes

will also be brought in to the area for Olympics use. Following the games, these will be moved to American Indian reservations throughout the state. The eighth project is an elderly LIHTC in Davis County. There are another 2,000 units in a eight projects that are in early planning stages; when and if they start construction is unknown at this time.

More recently completed LIHTC projects range in size from 42 units at Westland Cove, 72 units at Country Oaks (FHA financed), 80 units at Heritage to 115 units at Washington Park. The largest market rate apartment complexes range from 149 units at the Palladio II Apartments to 448 units at the Archstone at River Oaks. This excludes 684 dormitory units at the University of Utah.

Present Multifamily Construction Activity

The seven projects currently under construction are described below:

Colonial Court, 221 units :

This project is located in downtown Ogden off of Grant Avenue. All of its studio, one and two bedroom units are market rate and are designated for seniors age 55 and over. Amenities include a washer/dryer in each unit, exercise facility, business center and underground parking. The first building opened in August, while the second two attached buildings are expected to be open by the end of 2000.

The Bridge Apartments, 62 units :

Located in the Gateway District just west of downtown Salt Lake City, this project is expected to open in July 2001. All of its units will be income restricted to households earning between 35 and 55 percent of area median income. While the building is new, its design will have an older industrial/warehouse finish. The first floor will be dedicated to commercial space while the top three floors will contain residential units. Amenities include a washer and dryer in each unit and off-street parking.

Silver Pines, 144 units:

This elderly LIHTC project is located in Sandy off 700 East. The elevator project will include patios/balconies, exercise room, business center, community room and a social director. One hundred eight of the 144 units are income restricted to households earning 35 percent (31 units) and 60 percent (77 units) of area median income. The building should be finished by May 2001.

Ridge at Jordan Landing, 276 units:

This FHA insured project is located in on the western edge of West Jordan, near Bangerter Highway at 7200 South. The site is part of a 400 acre development that, in addition to residential, includes industrial, office and retail uses. The first building came on line in August 2000 and construction should be completed by Winter 2001. One hundred percent of its one, two and three bedroom units are restricted to households earning less than 60 percent of median income. The project includes a washer/dryer in each unit, covered parking, attached garages for some units, clubhouse, pool, Jacuzzi and exercise room.

Westgate at Jordan Landing, 296 units

This FHA insured market rate project is located next to the Ridge at Jordan Landing described above. Construction began in August 2000 and the first buildings are expected to come on line in June 2001. Pool, clubhouse, exercise room, business center, covered parking and unit washer/dryer and some attached garages are among the project amenities.

Pine Brook Apartments II, 96 units:

Located north of downtown Ogden on Washington Boulevard, this is the second phase of the original 192 unit Pine Brook Apartments I. While the first phase opened in February 1999, the second phase should be completed by March 2001. This 100 percent market rate project includes a pool, clubhouse, exercise room, business center and unit washer/dryer, walk-in closets and storage.

Legacy Springs Apartments, 204 units:

Located in Riverton, in the far southwest part of Salt Lake County, this project is off 4800 West. Construction began in October 2000 and the first buildings should come on line in the summer 2001. This 100 percent market rate project includes a clubhouse, exercise room, business center and unit washer/dryer hook-ups.

In total, there are 1,299 apartment units under construction; about 60 percent are market rate elderly/family units while 40 percent are LIHTC units. About one half of the units should be coming on line within the next six months and the second half by Summer 2001. There is some concentration in the West Jordan area, but other projects are reasonably well spread out by project type, timing and geographic area. The modest number of projects under construction should help the market easily absorb these new units, including those in West Jordan.

Proposed Multifamily Construction Activity

Projects likely to start construction within the next several months include four LIHTC, two market rate and a phase II addition to an existing project. These are described below:

City Front Apartments, 155 units:

This project is located west of downtown Salt Lake City off North Temple. Construction should begin by the end of the year or in early 2001. Sixty percent of the, two and three bedroom units will be restricted to 60 percent of area median income. This four story elevator project will dedicate the first floor to retail space. Amenities include business center, exercise room, swimming pool and unit washer/dryer. These units will be available for Olympics media housing when finished.

Northgate Apartments, 330 units:

This project is located west of downtown Salt Lake City off South Temple behind Union Pacific Station. It is part of the phase I centerpiece of the Gateway redevelopment district. Phase I is a \$350 million mixed-use development that unites retail, hotel, office and residential units in a three block area. The 2 million square foot development began construction last year and the Northgate Apartments portion should begin by the end of this year or in early 2001. Approximately 45 percent of the 330 units will be restricted to 40, 50 and 60 percent of area median income. Amenities include unit washer and dryer, clubhouse, sauna, business center and exercise room. These units also will be available for Olympics media housing.

Jordan River Elderly, 48 units:

This project is located in West Jordan just off I-15 at approximately 7900 South. This 100 percent LIHTC elderly project should begin construction in the Spring 2001. Project features include a community room, children's daycare center and education center. All of the units will be affordable to elderly households earning less than 50 percent of area median income. ,

Allegro at Corner Canyon Apartments, 258 units:

This potentially FHA financed project is located in Draper at 13300 South just west of Interstate 15. Construction is expected to begin on the 258 units project during the Spring 2001. The Class A property includes clubhouse, pool, Jacuzzi, business center, exercise room and picnic areas, while units will each have a washers/dryer, storage, walk-in closets and carport.

Sterling Village II, 294 units:

Located in South Jordan off I-15 at approximately 11000 South, this is a second phase of the original 300 unit Sterling Village I. While the first phase opened in 1997, the second phase should begin construction by Summer 2001. This 100 percent market rate project includes a pool, clubhouse, exercise room, business center, covered parking and unit washer/dryer, walk-in closets and storage. When complete, it will be the largest market rate project in the MSA.

Willow Cove VII, 72 units:

This project is located in West Jordan off Redwood Road at approximately 9200 South. This is the seventh phase of a project that began in the late 1980s. The total project size when this phase is complete will be 590 units. Amenities offered will be the same as in the first phases, including pool, clubhouse and unit washer and dryer hook ups. This phase of the 100 percent market rate project should begin construction by the end of this year or in early 2001.

Jefferson School Apartments, 115 units:

This housing authority LIHTC project is located about a mile west of downtown Salt Lake City on South Temple. Forty percent of the units will be aimed at households earning less than 60 percent of area median income. The project will include 25 one bedroom and 90 two bedroom units, with pool and clubhouse as common area amenities. Construction should begin by the end of this year or in early 2001. These units will be available for Olympics' security worker housing.

Rose Cove II Elderly, 124 units:

This project is located in Farmington (south Davis County) just off I-15 at State Highway 89. This 100 percent LIHTC elderly project will be the second phase of an existing elderly market rate project. Building should begin by early 2001. The two story walk-up buildings will include a community building and unit washers/dryers. All of the units will be affordable to elderly households earning less than 60 percent of median area income.

In total, the eight apartment projects in the late planning stage account for 1,396 units. Five are LIHTC projects and are scattered throughout the area. Of the 772 units in these LIHTC projects, 458 are income restricted to a mix of households earning less than 40, 50 and 60 percent of area median income and 314 units that are market rate. The remaining three are 100 percent market rate projects (624 units) located in the south and southwest areas of Salt Lake County.

Home Sales Market

Single family home sales activity and average price increases have moderated from the rapid increases of the early and mid-1990s. Since 1990, the average single family home sales price has approximately doubled, but over 70 percent of this increase occurred during the first half of the decade. This was initially fueled by the area's low prices and a surge in immigration, especially from California. As the area's economy boomed, a healthy move-up market followed, stimulating double digit price increases from 1992 to 1995. Conversely, as the economy and immigration slowed beginning in 1997, price increases also cooled. The trend since 1996 is presented in the following table (complete data is not available prior to 1996):

Table 4

Existing Single Family Sales
Salt Lake City, Utah MSA
1996 - 2000

<u>Year</u>	<u>Number of Sales</u>	<u>Average Sales Price</u>	<u>Percent Change</u>
1996	12,977	\$140,203	na
1997	12,643	\$149,969	7.0%
1998	13,502	\$158,117	5.4%
1999	14,264	\$162,902	3.0%
Jan-Nov 1999	13,082	\$163,144	na
Jan-Nov 2000	13,205	\$168,644	3.4%

Source: Wasatch Front Regional Multiple Listing Service

Price increases have moderated since 1997. Sales activity continued to increase moderately, but not enough to prevent a build-up in active listings. The market is now leaning slightly towards a buyers' market. The market is strongest in the first time buyer range of between \$100,000 to \$160,000, while homes priced above \$300,000 move a little slower. Prices are highest in Salt Lake county, followed by Davis and Weber Counties.

New homes make up about 32 percent of the total market and the average sale price approximates the existing average home sales price. About 50 percent of new homes sold through October 2000 are in the \$100,000 to \$175,000 price range, while homes priced over \$300,000 make up just 12 percent of the total. The balance of new home sales activity (38 percent) is between \$175,000 to \$300,000.

Rental Market Conditions

The slight surplus of units at the start of the decade (the vacancy rate was estimated at nearly 8 percent) was absorbed by the market in a few years. Extremely tight conditions prompted double digit rent increases from 1992 to 1993 until new units began to hit the market in 1993. Moderate rent increases continued during the mid-1990s and the vacancy rate moved up slightly. As a surge of new units came on line in 1996 and 1997, the rental market began to weaken. Simultaneously, low interest rates prompted a shift to homeownership and slower employment growth extended the competitive market period to the beginning of this year. The trend in apartment vacancy rates from a survey begun in 1995 is shown in the following table:

Table 5

Apartment Vacancy Rates
Salt Lake City-Ogden MSA
1995 - 2000

<u>Survey Date</u>	<u>Vacancy Rate</u>
1st Quarter 1995	5.0%
3rd Quarter 1995	3.0%
1st Quarter 1996	4.7%
3rd Quarter 1996	4.2%
1st Quarter 1997	4.8%
3rd Quarter 1997	4.5%
1st Quarter 1998	4.3%
3rd Quarter 1998	4.4%
1st Quarter 1999	4.6%
3rd Quarter 1999	4.8%
1st Quarter 2000	5.1%
3rd Quarter 2000	3.9%

Source: Hendricks & Partners

The rental market tightened this year primarily due to the dramatic cutback in apartment construction activity that began in 1998 and continued into this year. This tightening is reflected in the decline in the third quarter vacancy rate to 3.9 percent, down almost a full percentage point from a year earlier. Despite this tightening, rent increases remain modest. Most submarkets report improvements, but the west and southwest recorded the lowest rates, followed by the Salt Lake Downtown/East and Ogden. The number of projects offering concessions has significantly declined and the deep incentives of the past few years are rare. Projects opening this year have generally leased up quickly.

The market should continue to strengthen in the coming year because of the relatively few units coming on line. By mid-year 2001, the vast majority of the 1,300 apartment units currently under construction will be completed. With few exceptions,

these projects should be quickly absorbed by the market, given the relatively modest number of units and product mix. Rent increases should begin to accelerate as units become scarce. Also, the pressure to finish Olympic timed projects as well as the arrival of Olympic related workers and businesses, will further tighten the market in the second half of 2001. Of the 1,400 units that will likely begin construction over the next several months, about half are timed for completion prior to the start of the Olympics. This will offer little relief to the market tightening in 2001, especially since the vast majority of these units will be withheld from the market for media or security worker use until after the games.

In 2002, the departure of Olympics and related workers will impact the metro area market, particularly in the downtown/east Salt Lake City area. Under an agreement with the Olympics committee, the 600 media and security units will be released slowly, depending on market conditions. This will help avert a major softening in the downtown/east area. The remaining pipeline units (approximately 700) are in three market rate projects located in the south and southwest Salt Lake County, which will open well after the Olympics. Despite slower employment growth and some general short term market easing, these projects should lease up reasonably well. Completion of Interstate 15 and expected strong employment growth south to neighboring Utah County will help the market absorb these projects. In summary, the market will tighten in 2001, experience some short term easing in Spring and Summer 2002, and return to tighter conditions by the end of 2002.

Household Growth and Renter Demand Forecast

During the 1990 through October 2000 time period, building permits were issued for about 93,200 units in the Salt Lake City-Ogden MSA. The vast majority of these (about 73,900 units) were single family homes and townhouses. Of the 19,300 multifamily units permitted, we estimate that about 16,000 were actually in rental projects. Owner occupied condominiums and duplexes account for the balance of multifamily units permitted. The absorption of the new rental units and a significant decline in renter vacancies resulted in an average absorption of over 1,700 rental units per year during the 1990s.

The dominance of single family homes in construction activity, coupled with low interest rates, resulted in a significant shift to homeownership in the area. We estimate that the homeownership rate has risen from about 67 percent in 1990 to over 73 percent at present. A continuation of this shift will dampen the demand for rental units. Note that about 17 percent of the units produced in this decade have been rental units. The relatively low proportion of rental units can be accounted for by a surplus of rental units in 1990 and low apartment rents that prevailed until 1993 before new construction was feasible. Higher vacancies and level rents in the latter part of the 1990s also discouraged production of rental units. We cannot expect the tenure of future demand to match the tenure of current occupied units. However, assuming a slower tenure shift, rental demand will be slightly under the average annual production during the 1990s.

We estimate that future employment gains of 2.5 percent for the first year and 2 percent for the second year will generate average household growth of just over 7,500 households per year. Household growth will be strongest in 2001 (8,300 households), while departure of Olympics related workers will slow growth in 2002 to 6,900 households. After adjusting for tenure shift, units under construction and mobile home impact, this level of growth should support production of 1,700 rental units in the first year and 1,300 in the second year or an average of 1,500 units a year. This is below the average production level of the 1990s of about 1,600 rental units a year.

At present, there are about 1,300 rental units under construction. This level of construction is below next year's expected absorption level and the market should continue to strengthen. There are approximately 3,400 units in various stages of planning. Of this total pipeline, there are 1,400 units in projects actually expected to begin construction in the next several months. The balance of pipeline projects (containing approximately 2,000 units) are in the early development stage; when and if they begin construction is unknown at this time.

About 60 percent of the 1,400 units in planning but not yet under construction are LIHTC or elderly units. The presence of below market rents and/or focus on elderly households in these latter units will boost rental absorption in the short run above the level one would expect if all were market rate, general occupancy projects. The limited number of market rate units in the immediate pipeline leaves some opportunity for this type of product now and over the next few years. The only caution is the expected competitiveness during the Spring and Summer months following completion of the games. As mentioned earlier, the market must absorb approximately 600 Olympics units during this period. However, this will only marginally impact the market apart from the Salt Lake City downtown/east area. Starts should begin soon with units coming on line prior to the Olympics or be timed to begin in late 2001 or early 2002 to avoid the Spring and Summer adjustment period after the games. This level and timing of construction will keep the rental market in balance over the next two years. Mixed income, 40 and 50 percent LIHTC and/or class B product would be well received in most submarkets at any time during the next two years.

Household Growth and Owner Demand Forecast

We estimate the demand for owner occupied units at about 6,100 units a year over the next few years. The 2001 demand is 6,600 units but as economic growth slows in 2002, demand declines to 5,600 units. Most of these units should be single family detached homes, although we expect that 15 to 20 percent of the demand will be met by manufactured homes in parks (and lots), townhouses, duplexes and condominiums. The proportion of townhouses and condominiums has crept up in the latter part of the 1990s.

Low Income Housing Tax Credit (LIHTC)

Recently completed LIHTC projects, with a few exceptions, have been well received by the market and have leased up well. The LIHTC rental market is strong for the 40 and 50 percent market, while the 60 percent market is more balanced. The 40 and 50 percent markets are much stronger because of the lack of new product for these income groups and the larger LIHTC/market rent differential which adds incentive for tenants to reside in below market tax credit projects. Conversely, the market is more competitive for 60 percent product throughout the MSA. In north Davis County, extended lease up periods for projects with a large component of 60 percent three bedroom units were common. Elsewhere in the MSA, newer, more competitive 60 percent projects have an easier time attracting tenants than older, more modest projects. Contributing to the competitive 60 percent market are the previous flat market rents, rising incomes and a preponderance of new 60 percent units. Section 8 vouchers are being used by a small portion of current tenants. However, participation could increase when the new proposed 50 percent Fair Market Rents (FMRs) go into effect. This could increase the payment standard for income qualified tenants, thereby, opening up more tax credit (and market rate) units to this very low income group. Currently, rents are generally kept at or slightly below the maximum allowed under the program and are below market rents for new projects and the Section 8 FMRs. Newer LIHTC projects compete well with the general rental stock in terms of rents and amenities.

The present inventory of 4,400 nonelderly LIHTC units entered the market beginning in the late 1980s. In the immediate pipeline are nearly 300 LIHTC units in three projects, all located in Salt Lake City. These are a mix of 40, 50 and 60 percent units.

Market Potential for Nonelderly LIHTC Units

The market potential for LIHTC units consists of households that are both income qualified and can afford the proposed rents. Table 6 illustrates the maximum incomes by bedroom size (assuming 1.5 persons per bedroom), maximum shelter rents (30 percent of the maximum income limit less a utility allowance) and estimated minimum incomes (assuming a typical requirement that tenant income be at least 2.5 times monthly shelter rent) at the 40, 50 and 60 percent of income level. Households within these income ranges form the target market for any given project and/or units at that income level. These computations are based on Fiscal Year 2001 income limits for the MSA that were effective March 9, 2000. The utility allowances have been estimated by local housing authorities throughout the MSA.

The following table shows income levels and maximum shelter rents that are considered under the LIHTC program:

Table 6

Target Resident Incomes and Rents by Bedroom Size **Salt Lake City, Utah MSA** **Fiscal Year 2001**

40 Percent of Median Income:

	<u>Number of Bedrooms</u>			
	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>
Maximum annual income	\$16,020	\$19,240	\$22,220	\$24,760
Maximum monthly shelter rent	\$339	\$410	\$478	\$519
Minimum annual income	\$10,170	\$12,300	\$14,340	\$15,570

50 Percent of Median Income:

	<u>Number of Bedrooms</u>			
	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>
Maximum annual income	\$20,025	\$24,050	\$27,775	\$30,950
Maximum monthly shelter rent	\$439	\$530	\$606	\$674
Minimum annual income	\$13,170	\$15,900	\$18,480	\$20,220

60 Percent of Median Income:

	<u>Number of Bedrooms</u>			
	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>
Maximum annual income	\$24,030	\$28,860	\$33,330	\$37,140
Maximum monthly shelter rent	\$539	\$651	\$755	\$829
Minimum annual income	\$16,170	\$19,530	\$22,650	\$24,870

To estimate the potential market in each range, we updated 1990 Census data that presented incomes by household size and tenure for all households. We assumed a faster growth in these target renter households than in total renters since the shift to homeownership has lowered the proportion of higher income renters. Consequently, the proportion of lower income renters has actually increased. Households were allocated to bedroom sizes based on occupancy patterns derived from the American Housing Survey. By comparing the above income ranges to the updated income distribution, we computed the number of renter households in each range. We then compared this to the number of units for this target group to obtain capture rates. The results of this analysis are presented below. Note that we have derived two sets of capture rates for each income level. The first is based only on completed units in the present inventory. The second is derived from the total of completed, under construction and proposed units. This later computation tells us the capture rates the LIHTC market will have to achieve to successfully absorb all units presently under construction and proposed. The results of this analysis are presented in Table 7.

Table 7

Nonelderly Market Potential and Capture Rates
Salt Lake City, Utah MSA
December 2000

	<u>Number by Bedroom Size</u>				
	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>	<u>Total</u>
40 Percent of Income:					
Total Renter Households	40,150	39,740	21,580	9,600	110,070
Targeted Renter Households	4,530	4,280	2,950	1,500	13,260
Completed units	127	113	28	4	272
Capture rates:	2.8%	2.6%	0.9%	0.3%	2.0%
Complete, under constr., proposed	133	120	28	4	285
Capture rates:	2.9%	2.8%	0.9%	0.3%	2.1%
	<u>Number by Bedroom Size</u>				
	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>	<u>Total</u>
50 Percent of Income:					
Total Renter Households	40,150	39,740	21,580	9,600	110,070
Targeted Renter Households	5,770	5,770	3,660	1,820	17,020
Completed units	28	321	145	104	598
Capture rates:	0.5%	5.6%	4.0%	5.7%	3.5%
Completed, under constr., proposed	44	354	145	104	647
Capture rates:	0.8%	6.1%	4.0%	5.7%	3.8%
	<u>Number by Bedroom Size</u>				
	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>	<u>Total</u>
60 Percent of Income:					
Total Renter Households	40,150	39,740	21,580	9,600	110,070
Targeted Renter Households	6,790	7,030	4,280	2,130	20,230
Completed units	788	920	1,097	80	2,885
Capture rates:	11.6%	13.1%	25.6%	3.8%	14.3%
Completed, under constr., proposed	1,037	1,140	1,181	80	3,438
Capture rates:	15.3%	16.2%	27.6%	3.8%	17.0%

Source: Estimated by HUD Economist

The total capture rates achieved for completed units are modest for the 40 and 50 percent target group, ranging from 2.0 and 3.5 percent, respectively. For the 60 percent target group, the capture rate of 14.3 percent, although still reasonable, is considerably higher. The 60 percent one, two and three bedroom rates are in double digits, with the three bedroom rate well above the others at 25.6 percent. Except for the 60 percent three bedroom rate, these rates are consistent with the generally balanced state of the present LIHTC market. The capture rates required following the entry into the market of all units under construction and proposed increase modestly, but again the majority of new units are at the 60 percent level. The largest increases are from 11.6 to 15.3 percent and 13.1 to 16.2 percent for the one and two bedroom units, respectively, at the 60 percent level. Rates at the 40 and the 50 percent level increase only slightly. The required capture rates and increase required to absorb proposed units are reasonable; the 60 percent three bedroom rate increases by only two percent, but is approaching the upper limit.

For some market areas, capture rates of 20 to 25 percent are considered the limit. Others can accommodate higher rates, but generally not greater than 30 percent. We have observed a few areas with tax credit unit capture rates exceeding 30 percent, resulting in an extended soft market and/or an exceptionally long lease-up period. In one slow growing market area, rates approaching 20 percent resulted in rent concessions and a lengthy rentup. Another area that is attempting to move from rates of about 5 percent to the 25 to 30 percent range has seen widespread rent concessions and extended rentups for LIHTC projects. It should be noted that the movement in capture rates may be equally, if not more, important than the absolute level of capture one is attempting to achieve. The more dramatic an increase required, the more time it takes the market to adjust.

Establishing attainable capture rates is imprecise but in view of the moderated market rents and growth in the Salt Lake area, we anticipate that the market could exceed the 20 percent level at this time. The under served 40 and 50 percent markets are well below this level. Conversely, the 60 percent market must contend with competition from class B market rate product that has not seen rent increases over the past few years. At the same time, production of 60 percent units has increased dramatically over the past several years. While the required one, two and four bedroom capture rates are below the upper limit, the 60 percent three bedroom rate is close to its potential. This assessment is supported by several 60 percent projects struggling to maintain full occupancy. However, because the increase in capture rate is modest (2 percent) for the three bedroom units and market rents are expected to increase in the short run, some improvement for this product type can be expected. Over the long term, as the LIHTC and market rents begin to diverge, capture rates could go higher. In the short term, development should be directed towards the 40 and 50 percent market.

In summary, there is considerable potential for developing additional LIHTC units at the 40 and 50 percent income range. Of course, there is strong demand from families who cannot afford the minimum rents at typical levels of LIHTC units without additional subsidy such as Section 8. The vast majority of Section 8 voucher recipients in the area have incomes less than \$12,000, an income group unable to afford any 50 or 60 percent LIHTC units and only a small portion of who can afford 40 percent of income units. The 60 percent market, where the vast majority of production has occurred, faces stronger competition from market rate projects. While the one and two bedroom 60 percent capture rates are reasonable, the market, in general, remains competitive, depending on project age and submarket area. The 60 percent three bedroom market is closest to its upper potential and faces the greatest competition. The four bedroom 60 percent capture rate is very modest and we would encourage development of this unit type (except in north Davis County). Therefore, over the short term, we encourage more production emphasis on all 40 and 50 percent unit types and 60 percent four bedroom, while the one, two and three bedroom 60 percent production could wait until the market absorbs projects in the pipeline.

Market Potential for Elderly LIHTC Units

There are numerous subsidized elderly housing projects for very low income households (50 percent of median income) in the MSA that were developed under the Low Rent Public Housing program or the Section 8 program. Overall, while there is some overlap with the LIHTC market (more likely at 40 percent), it is very small because tenant incomes in these projects are usually too low to afford the tax credit rent. Very low income elderly households can use vouchers in LIHTC projects, but account for only a small portion of occupancy.

There has been development of elderly LIHTC projects throughout the market area. Most have been developed at the 50 percent of income level, and the unit mix has been 70 percent one bedroom and 30 percent two bedroom units. New projects lease up reasonably well and the market is generally balanced. Following the entry of a project under construction and a second one about to break ground (these were described earlier), some competitiveness could be felt in the 60 percent market over the next year. The impact of these projects is presented in Table 9.

Table 9

Income Targets, Bedroom Distribution and Status of Elderly LIHTC Projects
Salt Lake City-Ogden, Utah MSA
December 2000

Completed:

	<u>One bedroom</u>			<u>Two bedrooms</u>			<u>Total</u>
	<u>40</u>	<u>50</u>	<u>60</u>	<u>40</u>	<u>50</u>	<u>60</u>	
Various	109	257	102	19	108	61	656

Under Construction:

	<u>One bedroom</u>			<u>Two bedrooms</u>			<u>Total</u>
	<u>40</u>	<u>50</u>	<u>60</u>	<u>40</u>	<u>50</u>	<u>60</u>	
Silver Pines	24	0	47	7	0	30	108

Proposed:

	<u>One bedroom</u>			<u>Two bedrooms</u>			<u>Total</u>
	<u>40</u>	<u>50</u>	<u>60</u>	<u>40</u>	<u>50</u>	<u>60</u>	
Rose Cove			60			64	124
Jordan River		27			15		42
Total	0	27	60	0	15	64	166
Grand Total	133	284	209	26	123	155	930

The potential market for these units is estimated using a methodology similar to that discussed in the previous section dealing with the nonelderly LIHTC market. The minimum incomes are equal to those in the previous section (see Table 7) but the maximum limits are the one and two person income limits for the appropriate level. The total potential below includes both one and two person households. Our experience indicates that about 80 percent of elderly LIHTC units are occupied by one person households. The capture rate shown has been adjusted to reflect this. For example, the 364 units that are existing, under construction and proposed at the 60 percent level will have to rent to about 290 one person households to be absorbed (.80 times 364). Also, based on past experience, approximately 10 percent of the units (30) are estimated to be occupied by out of area tenants, resulting in a need to capture 260 single persons in the local market. The adjusted capture rate of 17.1 percent represents the proportion of eligible single person households represented by these 260 persons. The results for the 40, 50 and 60 percent of income group are shown in Table 10.

Table 10

Elderly Market Potential and Single Person Renter Capture Rates*
Salt Lake City-Ogden, Utah MSA
December 2000

40 Percent of Income:	<u>Total</u>
Total Elderly Renter Households	12,740
Targeted Elderly Renter Households	2,160
Completed	128
Adjusted capture rate:	4.2%
Completed, under constr., proposed	159
Adjusted capture rate:	5.1%
50 Percent of Income:	<u>Total</u>
Total Elderly Renter Households	12,740
Targeted Elderly Renter Households	2,350
Completed	365
Adjusted capture rate:	11.1%
Completed, under constr., proposed	407
Adjusted capture rate:	12.3%
60 Percent of Income:	<u>Total</u>
Total Elderly Renter Households	12,740
Targeted Elderly Renter Households	1,520
Completed	163
Adjusted capture rate:	7.9%
Completed, under constr., proposed	364
Adjusted capture rate:	17.1%

* Capture rates have been adjusted assuming that 80 percent of the units are occupied by one person households and 10 percent of units are occupied by tenants from outside the MSA.

The total capture rates achieved for completed units are modest for all income levels, ranging from 4.2 to 11.1 percent. The 50 percent capture rate is the only rate in double digits. These rates are consistent with the generally balanced state of the present elderly LIHTC market. We have not adjusted for the possibility that some of these targeted households are already being served in subsidized units but a majority (60 to 70 percent) of the Section 8 subsidized elderly residents in the MSA have

incomes under \$10,000, below all minimum incomes. This would only marginally impact the 40 and 50 percent LIHTC capture rates. Conversely, the inclusion of the small portion (approximately 10 to 15 percent) of homeowners would lower capture rates, especially for the 60 percent units. The 60 percent capture rate, following completion of the projects under construction and planned, pushes the capture rate from 7.9 to 17.1 percent.

Of some concern is the jump in the capture rate required. As mentioned earlier in the discussion of nonelderly capture rates, experience has shown that such a rapid increase could be difficult to achieve. This does imply that the 60 percent market should be watched in the short term and further production should be postponed until the market absorbs these units. As with the nonelderly market, the high occupancy rates and waiting lists at existing subsidized projects indicates an ongoing need for more units with a deep rent subsidy.